Testimony of

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Family Farmer and Rural Small Business Priorities for the 2007 Farm Bill

before the

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Introduction

Madam Chairwoman and Members of the Committee:

My name is Glenn English, and I am the Chief Executive Officer of the National Rural Electric Cooperative Association (NRECA). As a former member of the House Agriculture Committee, I fully appreciate your responsibility to oversee the programs of the Small Business Administration and also ensure that federal programs and agencies work with and benefit America's thousands of small businesses. In today's era of utility mergers and international purchases of domestic utilities, electric cooperatives are the small businesses of the electricity sector. I am honored to be invited here today to offer electric cooperative perspectives on the pending 2007 Farm Bill and other legislation in the 110th Congress that will impact small business in rural America.

Background on Electric Cooperatives

NRECA is the national service organization representing the interests of cooperative electric utilities and their consumers. In addition to advocating consensus views on legislative and regulatory issues, NRECA provides health care, pension, financial investment and many other programs for its members.

Electric cooperatives are not-for-profit, private businesses governed by their consumers (known as "member-owners"). Today, 930 electric cooperatives serve 40 million consumers in 47 states. In addition to our small business status, cooperatives are a unique sector of the electric utility industry. Our revenue base comes from serving an average of only 7 consumers per mile compared with the 35 customers per mile served by investor-owned utilities (IOUs) and 47 customers per mile served by municipal utilities. To put this in greater perspective, electric cooperatives serve only 12 percent of the

population -- but maintain 42 percent of the nation's electricity distribution lines covering three quarters of the land mass. Cooperative revenue per mile averages only $10,565, while it is more than six times higher for investor-owned utilities, at $62,665 and higher still for municipal utilities, at $86,302 per mile. As a result, cooperatives have far less dollars than the other electricity sectors to support much more of the distribution infrastructure. In addition, electric cooperative households generally have less income than the rest of the nation. And, our business customer base is more energy intensive.

Electricity Policy: Getting it Right for Small Businesses

Seventy years ago, Congress realized that a robust electricity infrastructure and the universal availability of reliable, affordable electricity was the key to economic growth for rural small businesses and consumers. Congress has continued to ensure, through the Agriculture Committees and a series of Farm Bills, that rural America's electricity needs are answered. In the 2007 Farm Bill, Congress will expand this focus by including an energy title. While it focuses largely on alternative transportation fuels, there are also provisions that seek to boost the role of America's farmers, ranchers and entrepreneurs in providing renewable energy and electricity.

As Congress grapples with the next generation of energy policy, economic concerns must be considered along with national security and environmental sustainability. So far, Congress has focused largely on transportation fuel issues and alternative electricity fuels such as wind, solar and distributed generation. It has paid much less attention to the policy shifts needed in order to transform these alternative electricity fuels into electricity that is useful, affordable and available to consumers and small businesses. This electricity infrastructure transformation is underway but its

complete realization will take many decades and much research and development funding.

As Congress expands its policy focus to include electricity infrastructure issues, it must find the right balance between short-term and long-term goals. The wrong short-term decisions, such as over-incentivizing technologies that may not be able to deliver useful, affordable electricity or banning baseload generation fuels such as coal, will force electricity costs to rise sharply for many small businesses and consumers. And, the wrong short-term decisions will further complicate progress toward achieving energy independence and carbon reduction long-term goals.

In the short-term, the next 10 to 15 years, electric cooperatives face a dilemma -- how to continue providing reliable electricity at affordable rates as electricity demands increase and energy policies evolve. The electric utility industry has an obligation to meet the future needs of our consumers; as cooperatives we take that responsibility very seriously. We need Congress to help us achieve these short-term goals while together, Congress and the electricity industry plan for the long-term.

In the long-term, the next 30 to 50 years, we know that the electricity infrastructure will change and grow. Transmission capacity is not adequate to meet anticipated economic growth. Population estimates are causing utilities, which all have an obligation to serve, to plan for accelerated electricity demand. With adequate investment, we foresee new technologies to help curb demand, increase efficiency and provide cleaner power.

With so many variables in play, we don't know enough, between energy experts, utilities and the Congress to say with absolute confidence what the electricity

infrastructure will look like in 2020, 2030 or beyond. The Electric Power Research Institute (EPRI), which provides technological research to the electric utility sector, has identified the need to bring all potential energy resources, efficiency measures and technologies to bear as they each hold only a part of the potential needed to reduce U.S. carbon emission intensity.

Congress has two choices. It can work closely with industry experts to design policies that will allow use of the best current electricity technologies and commit significant research and development funds to finding new technologies. Or, Congress can make overly quick, reflexive decisions to adopt mandates before technologies are available to meet them and raise electricity rates to incentivize alternative generation that doesn't meet consumer needs. The second choice is a back-door, regressive tax on consumers, which will disproportionately impact small businesses, particularly those in rural America. Members of Congress who represent rural districts and small businesses must be fully engaged in this debate. Without your involvement, well-intended but misguided electricity policies will place sharply increased economic burdens on your constituents and jeopardize the country's long-term energy goals.

NRECA Policy Recommendations

Following are NRECA's recommendations for provisions in energy, environment and tax legislation and the 2007 Farm Bill that will ensure rural America's consumers and small businesses can continue to prosper while contributing to national goals of energy security and environmental stewardship.

I. Financing the Electricity Infrastructure for the Short-Term and the Future

We estimate that electric cooperatives need to invest $42 billion in infrastructure upgrades, transmission and generation capacity to meet the increasing electricity demand over the next 10 years. Over the past five years, approximately 60 percent of electric cooperative financing has come from private sources, while the other 40 percent is provided through the Rural Utilities Service loan program.

A. The Importance of the Rural Utilities Service

The Rural Utilities Service (RUS), a division of the U.S. Department of Agriculture, provides interest bearing loans to electric cooperatives for electric facility infrastructure at very low costs to the federal government. This program is fuel-neutral; however, RUS does not lend for technologies such as Integrated Gasification Combined Cycle (IGCC) or high-risk nuclear plants. The President's FY08 budget recommended 1) ceasing RUS lending for baseload generation and 2) enacting strict rurality tests for RUS loan eligibility. All electric utility sectors receive government incentives. But the Administration only targeted electric cooperative generation incentives. Taken together, these misguided proposals would result in higher rates and decreased electric reliability for the consumers and small businesses served by cooperatives.

Reps. Allen Boyd (D-FL) and Frank Lucas (R-OK) and over 130 other Members of Congress have asked the House Appropriations Agriculture Subcommittee to maintain $4 billion in loan levels for the RUS electric financing programs. Their letter has also asked the Committee to resist Administration policy proposals that dramatically alter the RUS mission or impose strict new eligibility requirements. NRECA thanks the many members of the Small Business Committee who have signed this letter.

B. Private Sector Financing for Electric Cooperatives

The National Rural Utilities Cooperative Finance Corporation (CFC) is a private sector-lender, created by electric cooperatives, and dedicated to providing affordable capital for electric cooperative infrastructure. CFC is partnering with Farmer Mac in some rural areas to further this important mission. In keeping with its public policy mission, Farmer Mac is providing a secondary market for qualified electric cooperative loans through the purchase of securities backed by electric cooperative loans made by CFC. This public-private partnership has increased availability of competitively priced private capital to electric cooperatives, which the electric cooperatives will pass along to small businesses and farmers in rural America in the form of lower electricity rates.

However, rural communities are not realizing the full economic benefits that Farmer Mac can provide. NRECA has asked the House Agriculture Committee to strengthen this partnership by authorizing Farmer Mac to treat the collateral backing up loans to electric cooperatives as a "program purpose" in the same manner as other rural and agricultural loans. This "program purpose treatment" would lower the cost of capital for our electric cooperative members, thereby lowering electric rates for consumers and

small businesses, and helping ensure that rural families will have reliable electric service well into the future.

II. Stimulating the Growth of Affordable, Reliable Renewable Energy and Electricity

This Committee's pending bill providing Small Business Administration loans for energy efficiency has the potential to help many small businesses served by electric cooperatives take a more active role in managing energy usage. Since 2004, electric cooperatives have provided numerous commercial energy audit workshops to teach small business owners how to reduce the effects of rate volatility by implementing energy efficiency practices. Cooperatives have also distributed over 75,000 Commercial Energy Savings Guides. Online, cooperatives offer business customers energy efficiency training with information on lighting, HVAC and water heating systems.

As the nation adapts the electricity infrastructure, electric cooperatives will play an important role by providing safe, reliable electric power at the lowest possible cost to the fledgling rural businesses that will supply significant amounts of our nation's energy. Electric cooperatives provide electricity to a large portion of the country's alternative fuel plants -- approximately 122 current or planned ethanol plants and 38 current or planned biodiesel plants.

A. Cooperative Innovation Examples

Electric cooperatives are actively participating in research and development efforts to discover which technologies will become significant components of the electricity infrastructure. In New York, the Delaware County Electric Cooperative, serving parts of four counties between I-88 and the Pennsylvania border, has a goal of

maintaining its record of providing power to a largely rural agriculture economy at rates 40% below local investor-owned and municipal suppliers and innovating at the same time. In the near-term, the cooperative is seeking to add local distributed generation from three sources: 1) a wood biomass plant using local forestry residuals; 2) a landfill gas project and 3) a commercial-scale wind project. To meet longer-term goals, the cooperative is partnering with the state power authority and technology firms to investigate the feasibility of residential fuel cells and substation energy storage.

Dairyland Power Cooperative (DPC), in La Crosse, Wisconsin, also serves part of Iowa. DPC is expanding its Evergreen Renewable Energy Program[SM] and is on track to reach 10 percent renewable generation by 2015. Dairyland has 17 MW of wind generation, 10.4 MW of landfill gas-to-energy plant, and 22 MW of hydroelectric power. In addition, Dairyland's animal waste-to-energy program utilizes manure from dairy and swine farms within the DPC system in anaerobic digesters to produce methane for conversion to electricity. Currently 3 MW of "cow power" are online and DPC has plans to bring up to 25 MW of digester plants online over five years.

Buckeye Power, the Generation and Transmission cooperative serving Ohio has developed an "EnviroWatts" program so its consumers can purchase renewable electricity generated from collected landfill methane gas. Buckeye has taken the additional step of making its program "Green-E" certified, assuring consumers that the power is actually generated. In Georgia, where renewable resources are not plentiful, twenty-eight cooperatives have come together to form Green Power EMC-an entity that exists to provide renewable energy to its member cooperatives for sale to approximately 1.2 million cooperative households in Georgia.

B. The Clean Renewable Energy Bond Program

Electric cooperatives are playing an important role in increasing renewable electricity production. In fact, electric cooperatives distribute, either from their own facilities or through contracts, over 600 MW of wind capacity. This represents about 5% of the nation's wind energy. Since cooperatives generate about 5% of the nation's traditional-source electricity, this statistic shows that cooperatives are keeping pace with the electricity sector in incorporating wind. Still, capital costs for renewable generation remain much higher – two to ten times more expensive – than conventional resources.

Without tax incentives comparable to those provided to for-profit electricity generators, renewable generation is unaffordable for most electric cooperatives' member-owners. As not-for-profits without federal income tax liability, electric cooperatives cannot use the Production Tax Credit (PTC). However, electric cooperatives have proven that, given the necessary incentives, they will build renewable power supply. The Energy Policy Act of 2005 established the Clean Renewable Energy Bond (CREB), a ground-breaking incentive tailored for electric cooperatives and municipal utilities. In essence, a clean renewable energy bond provides electric cooperatives and public power systems with interest-free loans for financing renewable energy generation.

The CREB program has succeeded in getting new renewable resources in the ground, including wind, biomass, landfill gas, hydropower and solar. The CREB program will expire January 1, 2009, along with the PTC. Electric cooperatives are urging Congress to extend and expand the CREB program. Reps. Ron Lewis (R-KY) and Earl Pomeroy (D-ND) have introduced H.R. 1965 to make the program annual and

provide an increase to $1 billion in funding each year with a $375 million electric cooperative set aside.

C. Transmission: Key to Expanding Affordable, Reliable Renewable Electricity

The successful CREB program is a model Congress should adapt to create transmission needed for renewable generation. A significant challenge facing renewable energy is transmission adequacy. Most renewable generation resources are located far from population centers where there is little demand for electricity and little transmission infrastructure. If large quantities of wind generation are to be built in those regions, it will be necessary to also site, fund and construct large amounts of additional transmission capacity to move the power to urban centers.

Where transmission is required to facilitate the interconnection of renewable generation to the grid and/or the delivery of renewable resources to consumers, the federal Government should 1) authorize the issuance of tax-exempt bonds to fund the construction of transmission facilities or expansion of existing transmission facilities and 2) remove current restrictions on the ability of private entities to benefit from tax-exempt financed transmission infrastructure.

D. REDLG: A Partnership for Rural America and a Boost to Renewable Energy

NRECA has joined with several other leading trade associations, including the National Association of Counties, the National Association of Development Organizations, the National Conference of State Legislatures and the Council of State Governments to ask the House Agriculture Committee to include a strong rural development title in the 2007 Farm Bill. Rural development funds have created countless opportunities for rural small businesses and helped keep agriculture communities intact.

Rural development funds bring much needed infrastructure – the building blocks of enterprise – to rural communities. Prime examples are water and waste water infrastructure and broadband technology. USDA Rural Development state staff are probably the most important element. These critical personnel work with small businesses, communities, cooperatives and others to make sure rural development funds are invested wisely.

Electric cooperatives meet community needs other than electrification through their economic and community development efforts, facilitated largely through USDA's Rural Economic Development Loan and Grant (REDLG) program. This program, funded by electric cooperatives and administered by USDA, has helped cooperatives across the country foster the development of many small businesses. Going forward, this highly successful program should be expanded to help cooperatives also bring affordable, reliable renewable resources to the communities we serve.

Through REDLG, electric cooperatives work in partnership with businesses and local leaders to provide zero-interest loans for many types of community and economic development projects. According to USDA, the REDLG program has provided more than $350 million in zero-interest loans or grants to help finance these projects, and has leveraged well over $2 billion in private funds to invest in rural communities while creating or retaining nearly 37,000 jobs.

But our members face a major challenge in fully utilizing this program. Electric cooperatives fund the REDLG program by making advance payments on their RUS loans, and through fees paid by CFC. Nonetheless, these funds, over $244 million in the last two years, are being redirected to other USDA programs. It is critical that Congress

stop this redirection of REDLG funds away from community and economic development projects.

REDLG can also play a key role in advancing our nation's energy security and climate change goals. Electric cooperatives already have several biomass projects on line, producing renewable power and providing a positive solution to our farmers' environmental and water quality issues. However, these projects are costly and difficult to finance. Whereas REDLG has been used to help finance both ethanol and soy-diesel projects, biomass projects owned by electric cooperatives are presently not eligible for funding. NRECA has asked the House Agriculture Committee to authorize USDA to provide REDLG financing – with an emphasis on grants – to reduce the costs for these biomass projects owned by not-for-profit electric cooperatives.

E. The Importance of Rural Telecommunications

As cooperatives work to achieve many of the goals I've discussed with you today, we realize that technology will be the key to success in many areas. Advanced telecommunications will be integral to energy systems of the future. Already, cooperatives are industry leaders in demand response and automated meter reading. These applications enhance metering and load management systems with telecommunications capabilities. Cooperatives can see load fluctuations and manage outages in real time. Cooperatives use this information to make short and long-term decisions about load growth and generation planning. The system efficiencies will only grow in the future as advanced or "smart metering" systems become more commonplace and expand to include the consumer's home and appliances.

With another partner organization, the National Rural Telecommunications Cooperative (NRTC), we work to make sure that rural consumers have access to advanced telecommunication services in their homes and businesses. Satellite technology provides an alternative where cable modem and DSL providers do not serve. Many rural electric providers offer WildBlue Communications' service which has helped stimulate economic development and provide vital services.

In Wisconsin, Richland Electric Cooperative helped a Madison-based publisher of board games relocate to a rural town where he could operate his company using WildBlue. Ouachita Electric Cooperative in Camden, Arkansas rushed WildBlue equipment to the Gulf region following Hurricane Katrina. Linemen used it to set up a communications center and for a time, satellite broadband was their only link to the world. When a tornado ripped through Dumas, Arkansas earlier this year, Ouachita again offered WildBlue equipment to set up a mobile communications center for local and state police.

WildBlue now has two satellites in service, making it possible to deliver service to as many as 750,000 homes and businesses in rural America. NRECA has asked the House Agriculture Committee to maintain the RUS satellite broadband program, ensure that it is technology neutral and that its regulations allow satellite broadband to serve rural areas.

III. Carbon Emissions Policies and Rural America

Developing and commercializing new technologies (including advanced generation technologies and carbon capture and storage technologies) will be critical for the utility sector to reduce greenhouse gas emissions. Congress should focus on

legislation that ties any reduction requirements and associated timeline to the commercial availability of cost-effective technology to achieve any reductions. Additionally, adequate funding must be provided for the research, development, demonstration, and commercialization of these new technologies.

Congress must also provide incentives to deploy those new, riskier technologies. Appropriate incentives for not-for-profit cooperative utilities help protect cooperative member-consumers from the higher cost and risk from new technologies. Cooperatives are least capable of financing newer, riskier technologies, and appropriate incentives will allow us to play a more substantial role under any climate change program. Appropriate incentives will help protect rural electric member-consumers, where households are 16 percent below the national household income, from the higher costs of these new technologies.

And, as Congress develops cap-and-trade legislation, there are several critical design elements to that policy. One of the most critical is how to allocate emissions allowances. We believe that allowances must be allocated, not auctioned, to utilities, and they must be allocated to fossil-fuel based units. Non-emitting units should not be allocated emissions allowances. Cooperatives say this as owners both fossil-fuel based generation units and non-emitting nuclear power. Providing allowances to only emitting units will help minimize electric generation costs and reduce higher prices placed on the nation's electric consumers. Providing allowances to non-emitting sources would only drive up the cost of electricity for consumers without providing any additional environmental benefit.

Conclusion

We appreciate the Small Business Committee and all its members for your continuing concern for the economic health of rural America. Electric cooperatives have worked with Congress for many years to anticipate and meet the needs of our rural citizens. We ask the members of this Committee to use all the tools at their disposal to protect and promote small businesses as energy policies are developed in the 110th Congress. I would like to thank the Committee for the opportunity to testify here today. I look forward to answering any questions you may have.